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Message Text

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PAGE 01 STATE 121824
ORIGIN SS-25

INFO OCT-01 ISO-00 SSO-00 /026 R

DRAFTED BY AID/AA/NE:JWHEELER:MC
APPROVED BY NEA:NAVELIOTES
NE/EI:GKAMENS
NEA/EGY:CKENNEDY RAFT)
NEA/EGY:CMARTHINSON
S/S-O: JETHYDEN
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R 122016Z MAY 78
FM SECSTATE WASHDC
TO AMEMBASSY CAIRO

C O N F I D E N T I A L STATE 121824

EXDIS

E.O. 11652: GDS

TAGS: EFIN, IBRD, IMF, EAID, EG

SUBJECT: EGYPTIAN CONSULTATIVE GROUP MEETING

REFS: (A) CAIRO 12432 (B) CAIRO 12307

1. WE VERY MUCH APPRECIATE MISSION REPORTING ON THE CHANGE IN GOVERNMENT AFFECTING ECONOMIC GROUP AND RECENT VISIT IBRD OFFICIALS.

2. AA/NE WHEELER DISCUSSED QUESTION OF CONSULTATIVE GROUP MEETING AGAIN WITH BENJENK MAY 9. BENJENK HAD BEEN IN TOUCH WITH PAIJMANS. BENJENK INDICATED THAT HE EXPECTED THE WORLD BANK TO MAKE A POSITIVE DECISION TO PROCEED WITH CONSULTATIVE GROUP MEETING. HOWEVER, HE AGREED WITH AMBASSADOR EILTS' SUGGESTION THAT FINAL DECISION COULD BE CONFIDENTIAL

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PUT OFF IN ORDER TO KEEP THE PRESSURE ON THE EGYPTIANS TO PERFORM. HE INDICATED HIS UNDERSTANDING EGYPTIANS HAVE ASKED FOR RETURN OF IMF FOR FINAL NEGOTIATION BUT LEFT IMPRESSION THAT THERE IS STILL SOME UNCERTAINTY AS TO WHETHER IMF WILL IN FACT GO.

3. BENJENK PARTICULARLY APPRECIATED AMBASSADOR'S URGING

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GOE TO APPROACH SAUDIS AT HIGH LEVEL. FROM CONVERSATION

WITH PAIJMANS, HE CONCLUDED THAT THIS HAD HAD POSITIVE IMPACT. HOWEVER, HE REMAINS CONCERNED ABOUT THE TIMING OF EGYPTIAN VISIT TO SAUDI ARABIA, FEELING THIS SHOULD TAKE PLACE QUICKLY.

4. BENJENK INDICATED THAT MACNAMARA HAD PERSONALLY QUESTIONED WHETHER EGYPT WAS PERFORMING TO A STANDARD DESERVING CONTINUING SERIOUS SUPPORT FROM DONORS. PRESUMABLY QUESTION REFERRED TO, INTER ALIA, NOT ONLY KAISSOUNI DEPARTURE BUT ALSO GOE'S DIFFICULTIES WITH IMF, SLOWNESS IN PREPARING FOR CG MEETING AND IN REQUESTING NEEDED SAUDI AID FUNDS, ETC.

5. SHAKOUR SHAALAN, IMF, CONFIRMED THAT HE IS PLANNING TO RETURN TO CAIRO, FOR APPROXIMATELY ONE WEEK BEGINNING MAY 24, TO CONCLUDE IMF NEGOTIATIONS WITH GOE.

6, COMMENT: WHILE EGYPTIAN REPORT CARD ON PERFORMANCE DURING THIS PAST YEAR PROBABLY WILL CONTINUE TO BE POSITIVE IN SPITE OF CABINET RESHUFFLE IN WHICH KAISSOUNI REMOVED AND SOME COMPROMISES WITH REFORM SCHEDULE, THERE IS NO QUESTION BUT THAT RECENT GOE PERFORMANCE MENTIONED PARA 4. ABOVE, NOW CAPPED BY KAISSOUNI DEPARTURE HAS HURT GOVERNMENT'S REPUTATION. IT WILL TAKE
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BOTH AN AGREEMENT WITH IMF AND A STRONG PRESENTATION TO CG TO RESTORE CONFIDENCE OF IMPORTANT DONORS, E.G., IBRD, IMF, AND GODE, THAT EGYPTIANS ARE SUFFICIENTLY SERIOUS IN PURSUING NECESSARY REFORMS TO WARRANT CONTINUING SUPPORT FROM TOTAL DONOR COMMUNITY. WHILE IN THE SHORT RUN EGYPTIAN ECONOMIC MANAGEMENT MAY AFFECT PRIMARILY ARAB AND INTERNATIONAL ORGANIZATION MONEY, WE BELIEVE IN THE LONG RUN EGYPT MUST PERFORM WELL IF WE ARE TO CONTINUE TO OBTAIN WIDESPREAD PUBLIC AND CONGRESSIONAL SUPPORT FOR VERY HIGH AMERICAN ASSISTANCE LEVELS. VANCE

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC COOPERATION, MEETINGS
Control Number: n/a
Copy: SINGLE
Draft Date: 12 may 1978
Decaption Date: 20 Mar 2014
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978STATE121824
Document Source: CORE
Document Unique ID: 00
Drafter: JWHEELER:MC
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780203-0808
Format: TEL
From: STATE
Handling Restrictions:
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780563/aaaacbgq.tel
Line Count: 104
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 152d969f-c288-dd11-92da-001cc4696bcc
Office: ORIGIN SS
Original Classification: CONFIDENTIAL
Original Handling Restrictions: EXDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: EXDIS
Reference: 78 CAIRO 12432, 78 CAIRO 12307
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 03 aug 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2703832
Secure: OPEN
Status: NATIVE
Subject: EGYPTIAN CONSULTATIVE GROUP MEETING
TAGS: EFIN, EAID, EG, IBRD, IMF
To: CAIRO
Type: TE
vdkvgwkey: odbc://SAS/SAS.dbo.SAS_Docs/152d969f-c288-dd11-92da-001cc4696bcc
Review Markings:
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Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014